

## Technology services provider

The Issue:

The present issue of Octopus Digital Limited consists of **27,350,000** shares. The issue is being conducting by an IPO through book building method in a price range of **PKR 29 – 40.60** per share. However, the successful bidder will only be allowed to allot 75% of the issue initially and the remaining (i.e. **6,837,500 shares**) will be offered to the retail investors. The bidding period is **from 9<sup>th</sup> to 10<sup>th</sup> Sep, 2021** and the public subscription dates are **16<sup>th</sup> to 17<sup>th</sup> September, 2021**.

Purpose of the issue:

The principal purpose of the issue is to finance the cost of development and launch of various digital dashboard platforms. The company wants to develop twenty nine intellectual properties in the categories of Dashboard based IPs, Topware & OmniConnect. The utilization and sources of funds are as follow:

Utilization of funds			Sources of funds		
Categories	Amount (PKR)	%	Categories	Amount (PKR)	%
Intellectual Property	696,000,000	88%	Initial Public Offering	793,150,000	100%
HR cost of marketing	42,150,000	5%			
HR cost of Sales	55,000,000	7%			
<b>Total</b>	<b>793,150,000</b>	<b>100%</b>	<b>Total</b>	<b>793,150,000</b>	<b>100%</b>

Investment Outlook:

- The ODL is enjoying good presence in Pakistan and Middle East and it is continuously expanding its cliental base. It has good portfolio of companies as clients and the business model is based on contractual basis so earning of the company are smooth.
- It is a low debt company; it will be benefited in the times of high interest rates.
- With the P/E ratio of 9.06 at the floor price and a P/E of 12.69 at the upper limit, the multiples of the company are attractive as compare to the sector P/E of 19.51.
- Good amount of revenue is generated from the international clients and the company is also penetrating in the international markets for new client, so will be in better position in case of currency depreciation.

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**About the Company:**

Octopus Digital Limited was incorporated on 29<sup>th</sup> December, 2017 as a private limited company in Lahore. Octopus is a wholly owned subsidiary of Avanceon limited. The company was created to cater the business of AMS services of the clients of AVN through a separate company in a focused manner. It will provide the AMS for clients other than those of AVN in near future.

Octopus is I.T Sector Company, which mainly deals in the After Market Support (AMS) services to a variety of clients. The AMS services include provision of parts, repair, maintenance and digital services for the equipment of the client's plant.

The information Technology services of the company includes online data/information storage, online monitoring and review of employee efficiency, online monitoring of cost and plant's efficiency etc.

Octopus will hold intellectual property rights of the following products:

1. Production Dashboard
2. Utilities Dashboard
3. Loop tuning dashboard
4. Energy Dashboard
5. Overall Equipment Effectiveness Dashboard
6. Condition Monitoring Dashboard
7. Predictive Analysis and Maintenance Services
8. Prescriptive Analysis and Maintenance Services
9. Omni Connect

Major customers of the company and their respective share in revenue for CY20 are as follow:

Customer	Country	%
Elegencia Hospitality & Facilities Management	Qatar	15.35%
Pakistan Petroleum	Pakistan	14.67%
SERCO Limited	Dubai	10.96%
PEPSI COLA	Pakistan	9.98%
Engro Polymer	Pakistan	6.52%
Others	Pakistan, Dubai & Qatar	42.52%

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Financials:

INCOME STATEMENT		
In PKR	1Q MAR 2021	1Q MAR 2020
Revenue	167,991,925	4,950,500
Gross Profit	137,391,422	3,647,922
Profit before taxation	132,108,337	(3,145,336)
Profit after taxation	125,973,791	(3,145,336)
EPS(On post IPO capital)	0.92	(0.02)
BALANCE SHEET		
	March 2021	Dec 2020
Non-Current Assets	1,095,439,599	1,092,970,248
Current Assets	391,134,308	262,347,103
Total Assets	1,486,573,907	1,355,317,351
Equity	1,430,554,720	1,304,580,929
Non-Current liabilities	-	-
Current liabilities	56,019,187	50,736,422
RATIOS		
Gross Profit Margin	81.78%	73.69%
Net Profit Margin	74.99%	-63.54%
Current Ratio	6.98	5.17
Debt/Asset Ratio	4%	4%

Valuation Analysis of the Sector:

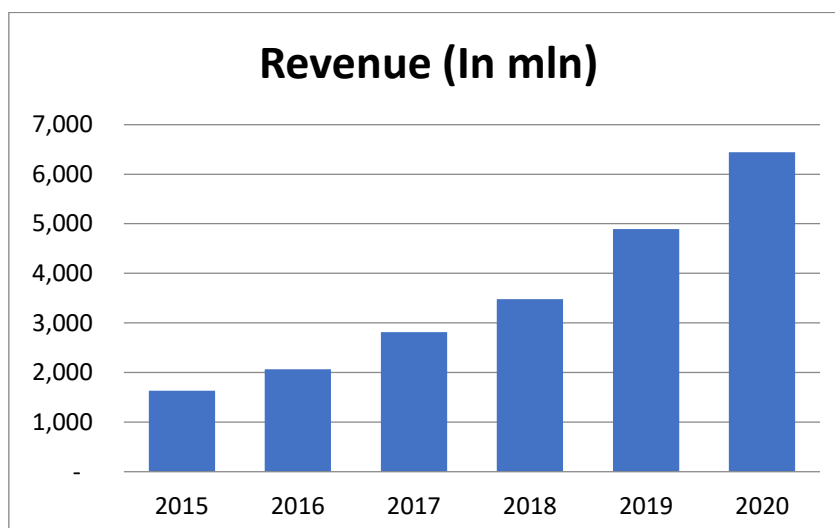
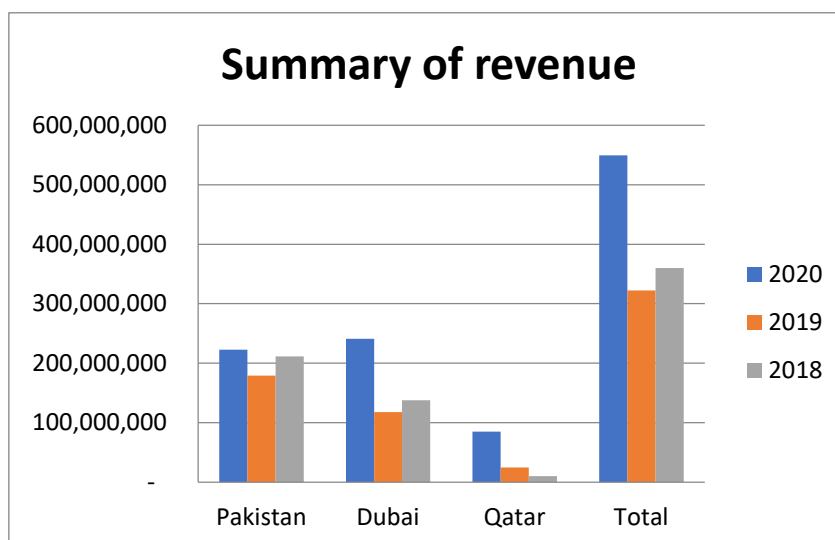
The book value and P/E of the companies in the sector, as well as of ODL is as follow:

Company	Price (Sep 06, 2021)	P/E	P/BV
SYS	763	38.81	12.72
NETSOL	152.81	132.88	1.96
TRG	162	9.18	3.60
AVN	124.94	33.77	5.65
<b>ODL</b>	29	9.06	1.78
	40.60	12.69	2.50

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Sales Trends:

Revenue of listed associated companies by virtue of it being a Parent Company. AVN is the parent company of Octopus.

Summary of region-wise revenue of AMS Business:Conclusion:

We recommend our clients to participate in the book building process of the company till the rate of **PKR 40.6/-**, since our target prices for the company for period FY22 comes out near **PKR 75/-** per share.

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**Valuation Methodology:** To arrive at our period end target prices, ISL uses different valuation methodologies including

- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)

**Frequently Used Acronyms**

<b>TP</b> Target Price	<b>DCF</b> Discounted Cash Flows	<b>FCF</b> Free Cash Flows	
<b>FCFE</b> Free Cash Flows to Equity		<b>FCFF</b> Free Cash Flows to Firm	<b>DDM</b> Dividend Discount
<b>Model</b> SOTP Sum of the Parts		<b>P/E</b> Price to Earnings ratio	<b>P/Bv</b> Price to Book ratio
<b>P/S</b> Price to Sales	<b>EVA</b> Economic Valued Added	<b>BVPS</b> Book Value per Share	
<b>EPS</b> Earnings per Share	<b>DPS</b> Dividend per Share	<b>DY</b> Dividend Yield	
<b>ROE</b> Return on Equity	<b>ROA</b> Return on Assets	<b>CAGR</b> Compounded Annual	
<b>Growth Rate</b>			

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[www.rafionline.com](http://www.rafionline.com)[research@rafionline.com](mailto:research@rafionline.com)

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**CONTACT DETAILS**

Pakistan Stock Exchange Office:

Room 518, 5th Floor, Pakistan Stock Exchange Building, Stock Exchange Road, Karachi-74000

Corporate Office:

Suite 1004,10th Floor, Al-Rahim Tower, I.I Chundigar Road Karachi-74000

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